

Message Text

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ORIGIN EB-11

INFO OCT-01 NEA-10 ADP-00 COME-00 TRSE-00 OMB-01 PA-03

PRS-01 USIA-12 CIAE-00 INR-10 NSAE-00 RSC-01 /050 R

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6/22/73 EXT: 2 L052

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FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN PRIORITY

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E. O. 11652, ADS, N/ A

TAGS: EIND, IR

SUBJECT: MOTION PICTURE TAXATION - VALENTI VISIT

FOR AMBASSADOR HELMS

1. DEPARTMENT AWARE EMBASSY HAS MADE CONSIDERABLE EFFORT TO RESOLVE MOTION PICTURE TAX PROBLEM, THAT YOU HAVE BEEN GIVING MATTER YOUR PERSONAL ATTENTION, AND THAT YOU WILL HAVE EXTENSIVE CONTACT WITH JACK VALENTI DURING HIS VISIT.

2. CURRENT U. S. MOTION PICTURE WORLDWIDE EXPORT EARNINGS OF OVER \$340 MILLION ANNUALLY ARE A SIGNIFICANT CONTRIBUTION TO U. S. BALANCE OF PAYMENTS. DEPARTMENT CONCERNED ADVERSE EFFECT ON BALANCE OF PAYMENTS WHICH ADOPTION IRANIAN AD VALOREM TAX FORMULA BY OTHER COUNTRIES COULD HAVE AND CONCERNED AS WELL ON NECESSITY RESOLVE SPECIFIC PROBLEM AS IT EXISTS IN IRAN.

3. IN VIEW OF FORTHCOMING VISIT OF JACK VALENTI TO TEHRAN,
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THE FOLLOWING BACKGROUND SUMMARY MAY PROVE USEFUL: PRIOR TO NOWROOZ 1973, MOTION PICTURES ENTERING IRAN WERE SUBJECT TO A SPECIFIC CUSTOMS DUTY OF 1000 RIALS PER KILOGRAM PLUS 12 AND A HALF PERCENT COMMERCIAL BENEFITS TAX ON ROYALTIES. ON NOWROOZ 1973 BOTH THESE IMPOSTS ABOLISHED AND REPLACED BY 20 AD VALOREM DUTY BASED ON INVOICE VALUE (CIF VALUE OF POSITIVE PRINTS) PLUS ROYALTY PAID TO LICENSOR ABROAD.

4. GOI ASSURANCES THAT CHANGEOVER PURELY TECHNICAL MATTER AND WOULD NOT REPEAT NOT RESULT IN ANY INCREASED BURDEN ON IMPORTERS AMERICAN MOTION PICTURES OR THEIR FOREIGN LICENSORS CONTRARY TO ACTUAL RESULT WHICH IS IMPOSITION TWO LARGE ADDITIONAL BURDENS ON IMPORTERS U. S. MOTION PICTURES. THESE BURDENS ARE: A) AN AD VALOREM DUTY BASED ON EARNINGS EXISTS NOWHERE ELSE IN WORLD AND NOT REPEAT NOT MANDATED BY BRUSSELS CUSTOMS COOPERATION TREATY. SUCH DUTY WOULD SET PRECEDENT THAT WOULD SERIOUSLY JEOPARDIZE U. S. MOTION PICTURE EXPORT BUSINESS IF FOLLOWED IN OTHER COUNTRIES. IF PRESENT TAX STRUCTURE CONTINUED IT WOULD BE ONLY A MATTER OF TIME BEFORE OTHER COUNTRIES EMULATE IT. SIGNIFICANTLY, THE TAX AS APPLIED IN IRAN IS A CUSTOMS DUTY AND NO LONGER AN INCOME TAX, SUCH AS THE COMMERCIAL BENEFITS TAX WAS, AND THEREFORE WILL NOT BE AVAILABLE TO LICENSORS IN THE UNITED STATES AS AN INCOME TAX CREDIT. ASSUMING THAT 150 PICTURES ARE IMPORTED ANNUALLY, EACH EARNING AN AVERAGE ROYALTY OF \$10,000, THIS WOULD MEAN THAT THE MEMBER COMPANIES WOULD LOSE A TAX CREDIT OF \$300,000 ANNUALLY.

B) WITH THE NEW TAX RATE NEARLY TWICE THAT OF THE FORMER COMMERCIAL BENEFITS TAX RATE, THERE WILL BE A PARTICULARLY HEAVY TAX BURDEN PLACED UPON THE MORE SUCCESSFUL PICTURES.

5. THE USG FULLY SUPPORTS OBJECTIVES OF MOTION PICTURE EXPORTERS ASSOCIATION IN OBTAINING ABOLITION OF THE NEW HIGH TAX RATES AND ACHIEVING RESTORATION OF THE FORMER SPECIFIC DUTY ON POSITIVE PRINTS WHICH EXISTS IN ALL EUROPEAN COUNTRIES AS WELL AS THE U. S. THIS OBJECTIVE TOGETHER WITH THAT OF RESTORING THE 12 AND A HALF PERCENT COMMERCIAL BENEFITS TAX WOULD LEAVE THE REVENUE LEVEL AS IT WAS PREVIOUSLY, WHICH THE GOI HAS INDICATED WAS ITS LIMITED OFFICIAL USE

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INTENTION.

6. ACTION REQUESTED: IN VIEW OF IMPORTANCE THIS MATTER AND HIGH LEVEL INTEREST IN THE DEPARTMENT AND THAT EXPRESSED BY SENATOR PERCY IN RESOLVING THIS PROBLEM YOU MAY WISH TO CONSIDER ACCOMPANYING MR. VALENTI ON HIS CALLS ON HIGH GOI OFFICIALS, OR, IF YOU BELIEVE IT MORE

APPROPRIATE, HAVE A RANKING EMBASSY OFFICIAL DO SO.
ASSUME, OF COURSE, MR. VALENTI WILL BE GIVEN ASSISTANCE
IN MAKING APPOINTMENTS FOR MEETING WITH THE HIGHEST
LEVELS OF THE IRANIAN GOVERNMENT THAT IT MAY BE NECESSARY
TO HAVE TO RESOLVE THIS MAJOR ISSUE. ROGERS

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 22 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE122287
Document Source: CORE
Document Unique ID: 00
Drafter: ERANKIN: JB
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: SECSTATE WASHDC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730625/aaaajioe.tel
Line Count: 125
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 21 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Dec-2001 by shawdg>; APPROVED <25 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980218
Subject: MOTION PICTURE TAXATION - VALENTI VISIT FOR AMBASSADOR HELMS
TAGS: EIND, IR
To: TEHRAN
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005